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1959 ANNUAL REPORT

Rexall Drug and Chemical Company

The Year in Brief

	1959	1958
OPERATIONS		
Net Sales	**$227,015,721**	$182,371,453
Net Earnings	**8,753,194**	6,305,160
Per Share	**$2.30**	$1.91
NO. SHARES		
Average during year	**3,801,549**	3,299,418
Outstanding year end	**3,832,639**	3,454,449
AT YEAR'S END		
Current Assets	**$ 89,362,446**	$ 83,927,488
Less: Current Liabilities	**33,885,789**	29,171,941
Working Capital	**$ 55,476,657**	$ 54,755,547
Long Term Debt	**$ 29,930,895**	$ 31,160,939
Stockholders' Equity	**$ 72,048,521**	$ 59,401,917
Per Share	**$18.80**	$17.20
DIVIDENDS — Per Share		
Cash	**$ 0.50**	$ 0.50
Stock	**3%**	

The President's Letter to the Stockholders

In 1959 net earnings of your Company were $8,753,194 or $2.30 per share as compared with $6,305,160 or $1.91 per share for 1958. This was our eighth consecutive year of increased earnings.

We continued our policy of regular quarterly cash dividends and an annual three per cent stock dividend. Because of the Company's rapid rate of growth, and the desirability of retaining a large proportion of earnings, it would be reasonable to expect your Directors to continue the present dividend policy for the year 1960.

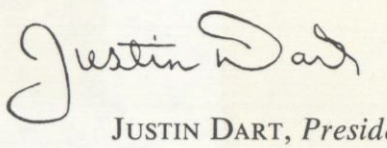
Present indications are that earnings, which in 1959 were the highest in the Company's history, will reach another new high in the current year.

Your Company continues to expand rapidly both in foreign and domestic markets. The principal fields of growth are ethical drugs (prescription only), proprietary drugs, plastics, petrochemicals and fine chemicals. We will make substantially larger investments in research and development in these fields during the current year.

To keep pace with the broadening of Rexall activities, we have expanded and strengthened our organization. We have been fortunate in attracting men of proven ability and broad experience.

We hope you will be able to attend the annual meeting of stockholders which will be held at the Company's headquarters in Los Angeles on April 19, 1960. If you are unable to be present in person, please exercise your right to vote by signing and returning the proxy forms you will receive with the meeting notice.

Sincerely,

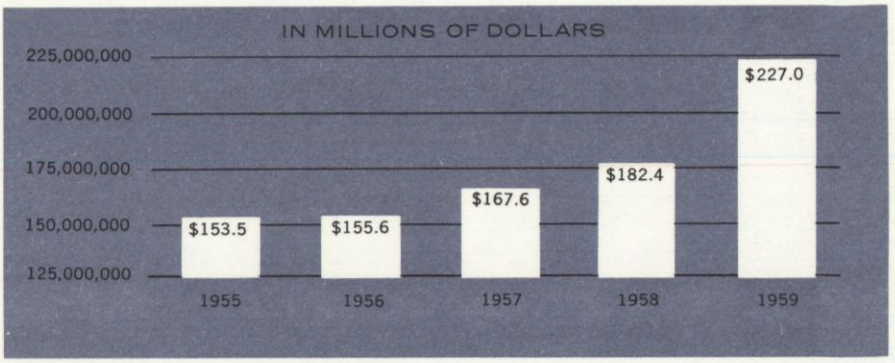


JUSTIN DART, *President*

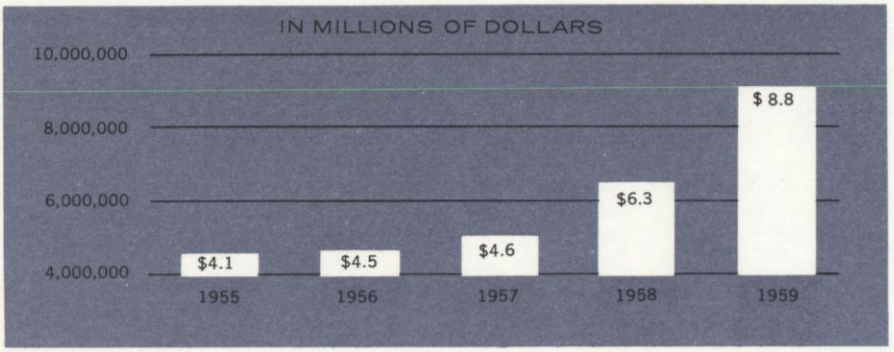
Los Angeles, California
March 15, 1960

Rexall Five Year Growth Record

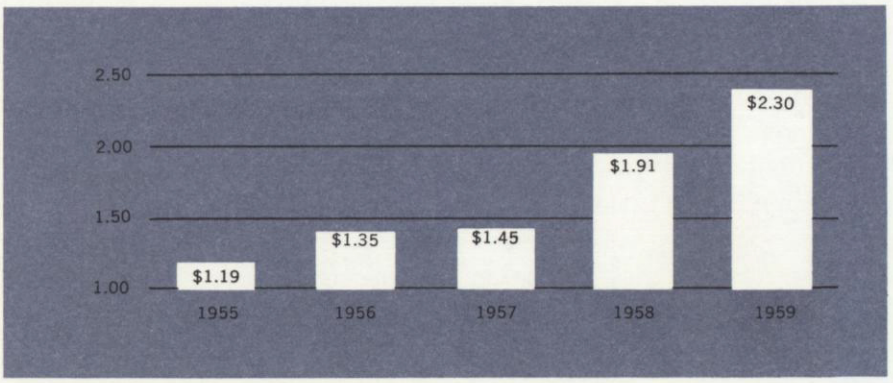
NET SALES



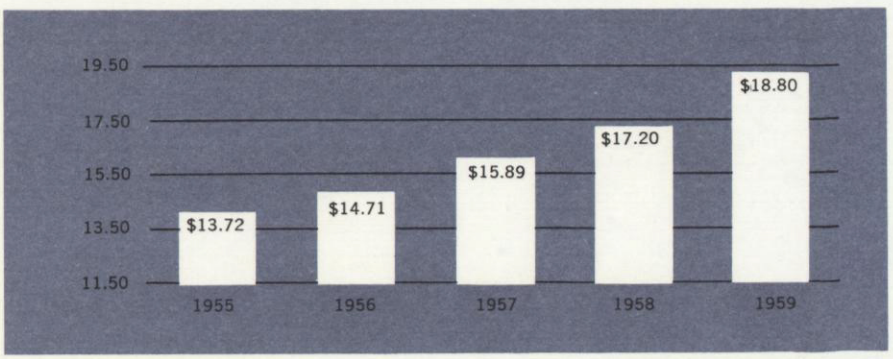
NET EARNINGS



EARNINGS PER SHARE



BOOK VALUE PER SHARE



REVIEW OF OPERATIONS

Financial

In 1959 net sales of all Company products were $227,015,721 as compared with $182,371,453 for 1958, an increase of $44,644,268 or 24.5 per cent.

Record Sales and Earnings

The Company and its consolidated subsidiaries showed net earnings of $8,753,194 for 1959, as compared with $6,305,160 for 1958, an increase of $2,448,034 or 38.8 per cent. The per share equivalents were $2.30 for 1959 on 3,801,549 shares, the average number outstanding during the year. This compares with $1.91 per share for 1958 on 3,299,418 shares, the average number outstanding during that year. On December 31, 1959 there were 3,832,639 shares outstanding as compared with 3,454,449 outstanding at the end of the prior year.

Earnings before taxes were $17,153,194 in 1959 as compared with $11,605,160 in 1958, an increase of $5,548,034 or 47.8 per cent. Provision for United States and foreign taxes on 1959 income was $8,400,000 as compared with $5,300,000 for 1958.

The Company's consolidated balance sheet as of December 31, 1959 showed current assets totaling $89,362,446 of which $16,168,363 was in cash and short term securities. Current liabilities were $33,885,789, leaving net working capital of $55,476,657.

Financial Position Strengthened

Long term indebtedness decreased $1,230,044 during 1959 to a total of $29,930,895. Total assets increased during the year to $135,865,205 as compared with $119,734,797 at the end of 1958.

During 1959 the Company continued its regular quarterly cash dividends totaling 50 cents per share. Following the policy initiated in 1958, the Board of Directors in October of 1959 voted a stock dividend of 3 per cent, payable March 11, 1960 to stockholders of record on February 5, 1960.

Stockholders' Equity Up $1.60 a Share

At December 31, 1959, stockholders' equity amounted to $72,048,521 or $18.80 per share, as compared with $59,401,917 or $17.20 per share at December 31, 1958.

During the year the Board of Directors decided that consolidation of our growing foreign subsidiaries would give the stockholders a more complete presentation of our financial position. Accordingly, the 1959 financial statements include the accounts of our foreign subsidiaries.

The Divisions

Multiple Platforms For Growth

At Rexall Drug and Chemical Company operations are currently centered in six different fields. These are: **(1) proprietary drugs; (2) hospital supplies; (3) ethical drugs; (4) plastics; (5) chemicals; and (6) retail stores.** One of the principal advantages of Rexall's diversified corporate structure is that it provides multiple opportunities for growth. A review of the operations of the divisions follows.

Proprietary Drugs

Rexall is a major producer of proprietary or trademarked drugs, cosmetics and toiletries which are manufactured largely in our St. Louis Laboratories. Steps taken earlier to modernize and expand these manufacturing facilities resulted this year in the greatest increase in production in the history of this operation. This facility now manufactures more than 2,300 different products and it is one of the largest and most complete laboratories of its kind in the world. During the ensuing year, it is expected that productive capacity will be further increased, as a result of improvements begun in 1959, especially in aerosol, tablet and liquid manufacture.

Rexall proprietary drugs, cosmetics and toiletries also are manufactured and distributed in Canada, England, Australia and South Africa.

Development of New Products Accelerated

A number of new products were developed in the St. Louis Laboratories during the year. The most important of these were Rexall Meltamins, Jr., a chewable multi-vitamin for children; Rexall Cough Center Tablets, a tiny tablet that stops coughs for up to six hours; Rexall Insorb, liquid chest rub; and the Rexall "New Awakening" line of women's hair products, five important "firsts" in the hair products field.

New product testing was given a high priority during the past year, and concentrated attention was focused on attractive package designs with consumer appeal.

Manufacture and sale of proprietary drugs, cosmetics and toiletries for distribution other than by Rexall is handled by Tested Products Company. Volume of this operation showed a substantial increase in 1959.

Rexall is Best Known Name in Drugs

In 1959 total sales of the Company's products marketed through Rexall franchised drug stores reached a new high. The familiar Rexall name is now displayed by 10,150 druggists in the United States, and by an additional 1,500 druggists in Canada. Of this number only 174 are owned by your Company.

In 1959 the Company continued its program of intensifying its franchise campaign with special emphasis in fast growing key market areas. The numerical growth in franchise holders in no way signifies the Company's over-all growth. While there has been a decrease in the number of drug stores per se, the number of Rexall stores has continued to increase each year. Emphasis continues to be on quality and not quantity. Marginal and sub-marginal franchise holders are being replaced by efficient stores which are a credit to the Rexall name.

Company Helps Dealer Get Shopping Center Locations

As an aid to the development of new franchise contracts, the cooperative realty program, started in 1956, was aggressively expanded. The growing and shifting nature of the population has brought about the development of suburban shopping centers which make highly desirable locations for retail drug stores. Leases for such locations are usually denied to independent operators because of their inability to qualify financially for a shopping center lease. Through Rexall Realty Corporation, sites in shopping centers are obtained under favorable lease terms. The Company also provides building and store design specifications and supervises the operation of these stores until such time as they are wholly owned by the independent druggists who pay for them largely out of operations.

New Products Get Strong Advertising Support

The over-all Rexall advertising program during 1959 was the most powerful ever put behind the Rexall trademark. There were five hour-long television "spectaculars" and these programs were supported by double page advertisements published on the same day in such Sunday newspaper supplements as "This Week", "Parade", "Family Weekly", and a selected group of independent magazines. An eight-page full color advertisement in "This Week", the largest single advertisement ever to appear in that publication, was run in the November 29, 1959 issue.

The advertising schedule planned for 1960 is even larger. For example, three television "spectaculars" were scheduled during the early part of the year.

Continued emphasis is placed on the advertising and merchandising of individual Rexall products such as Super Plenamins. This concentration on specific products proved itself during the year and will be continued in 1960 as an adjunct to Rexall's multi-product promotions.

Buy the Rexall Brand

This merchandising plan not only helps bring more customers into Rexall stores but also serves to motivate customers to buy specific Rexall products. Rexall receives the greater part of its proprietary drug income from products sold by Rexall druggists which carry the Rexall trademark.

Hospital Supplies

Outlook for Rubber Goods and Hospital Supplies Improves

In 1959 The Seamless Rubber Company, Rexall's principal manufacturer of hospital supplies, intensified and increased its sales and advertising programs. This resulted in an improved performance over 1958. Similarly good results were achieved with the Company's sporting goods line and it is expected that in both cases programs should continue to be effective through 1960.

The Absorbent Cotton Company, a producer of cotton and gauze products for the medical field, continued its program of modernization and cost reduction during 1959 with a large investment in new equipment for cost reduction purposes. An expanded sales effort in the hospital field shows promise for 1960.

* * *

United Cotton Stresses Research

The United Cotton Products Company, producer of abrasive materials, made a substantial improvement in profit over the previous year. Emphasis placed on product development has resulted in several patents pending on highly specialized industrial abrasives for the metal fabricating and heavy manufacturing industries. The addition of these new products should contribute to an improved profit performance for 1960.

Ethical Drugs

Riker Has World-wide Reputation

Operations at Riker Laboratories, Inc., the Company's ethical drug operation, continued at high levels during the year. Its new headquarters, housing research, manufacturing, sales and administrative offices, is proving to be an efficient home for Riker. This new facility was opened late in 1958 in Southern California and was built to permit further expansion at minimum cost.

Riker, established in 1949, is known today throughout the world for its research accomplishments. Its major products, sold on prescription, represent noteworthy research achievements.

Norflex, a drug for muscular spasms, was introduced in October of 1959. In January of this year Medihaler-Ergotamine, for vascular headaches, was placed on the market. Previous results of Riker research include Deaner, a non toxic anti-depressant; Medihaler-Iso and Medihaler-Epi for the relief of bronchial asthma; Veriloid and Rauwiloid for the management of hypertension.

Riker Has Attractive Product Prospects

Riker continues to invest an unusually large percentage of its sales dollar in the search for medications to relieve our unconquered diseases. While no one can predict which drugs-in-development will ever reach the market place, never in the history of your Company have such promising experimental medicines been in process of test. The men and women of Riker's research division also serve as an important source of consultation for solution of technical problems of other Rexall companies.

Riker's products are available in nearly all countries through a major manufacturing subsidiary in England, through distributing subsidiaries in Australia, Canada, and South Africa, and through distributors in many other lands.

Plastics

Rexall is a major producer of a wide variety of plastic products. In subsidiary operating plants, located strategically throughout the country, plastic products are manufactured for four important expanding markets. These include (1) plastic products for the home; (2) plastic bottles and containers; (3) plastic pipe, valves and fittings; and (4) plastic film for packaging.

Tupperware is America's Leading Plastic Houseware

The Company's household line includes more than 100 items of the nationally famous Tupperware. During 1959 the Tupper Company continued its emphasis on research and development of new and better plastic products for the home.

Tupperware, the world's largest selling household plastic product, is marketed directly to customers through a network of many thousands of independent dealers who make their contact with customers through a unique home party plan. Tupperware Home Parties, initiated in 1950, had its most successful sales year in 1959. The Company anticipates increased sales of its products in the current year.

Rexall entered the plastic bottle and plastic container field in 1959 with the acquisition of Injection Molding Company, whose principal plant is located in Kansas City, Missouri. IMCO has additional plants in Missouri, New Jersey, Virginia, California and Toronto, Canada.

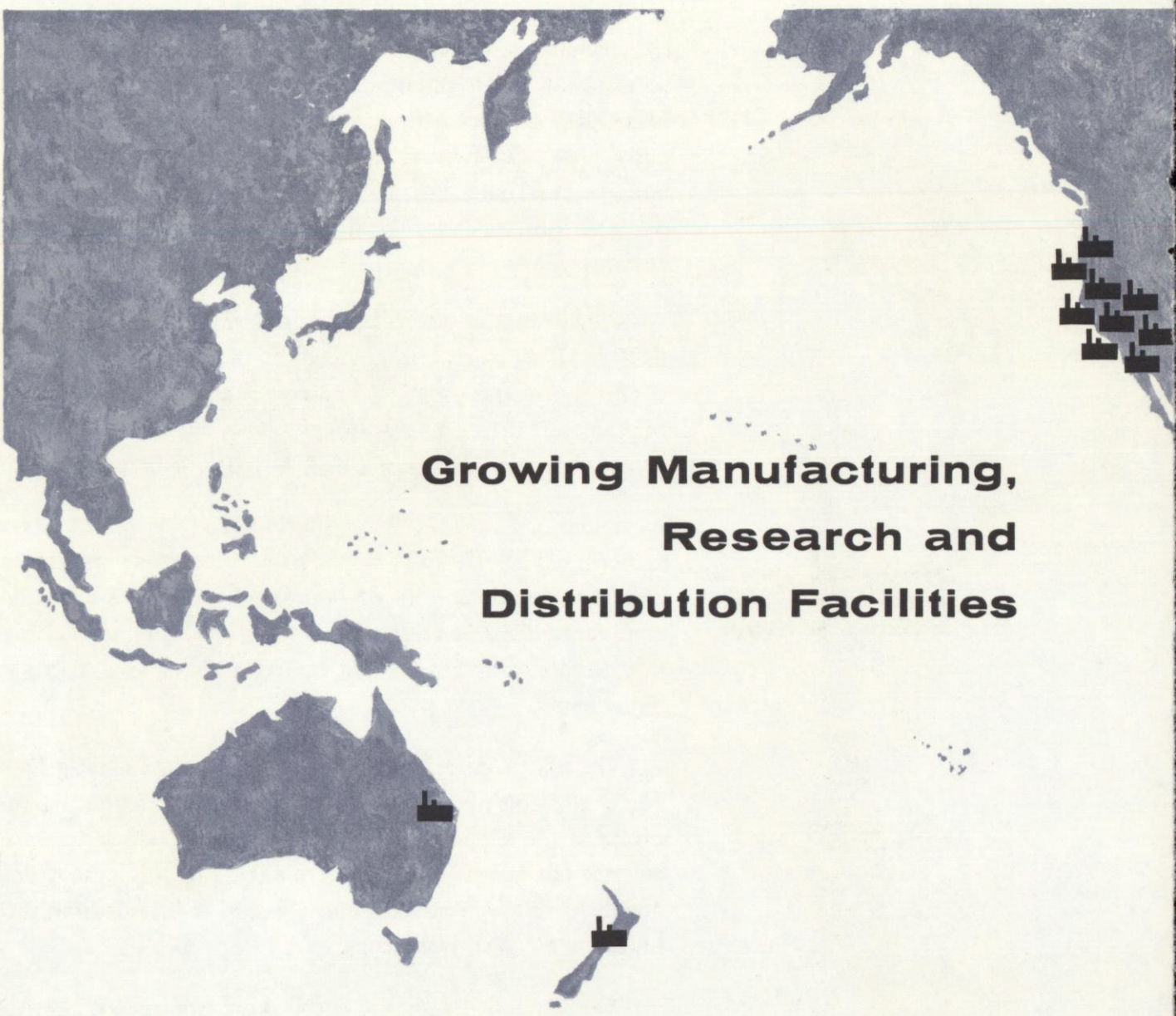
Demand for Plastic Bottles, Containers Far Exceeds Supply

There is a steadily increasing demand for plastic containers, especially in the cosmetic and toiletry field. In addition, manufacturers of household detergents recently announced their intention of using plastic containers and this development has created an extra heavy and continuing demand.

The plastic container market is one of the fastest growing in the country and demand has been continually in excess of the supply. It will be several years before we can enlarge our plants sufficiently to take care of present demand. Rexall is in an excellent position to benefit from the rapid growth of this industry.

Kraloy-Chemtrol Plastic Pipe Gains Recognition

The Kraloy-Chemtrol companies are producers of plastic pipe, valves and fittings. The versatility of these products continues to attract attention. They are being widely used in chemical, oil and agricultural installations. Late in 1959 Kraloy plastic conduit was approved by the Underwriters Laboratories, Inc. for use underground and encased in concrete. Our plastic conduit was the first in the industry to receive this symbol of excellence and as a result markets are expected to grow in private and public utilities as well as in other fields. New product development continues on valves and pumps and important growth is expected for Kraloy-Chemtrol during the current year.



Growing Manufacturing, Research and Distribution Facilities

The growth of your Company is illustrated in the above map, marking key manufacturing, research and distribution facilities. While once known mainly as a proprietary drug firm which also operated retail chains, Rexall Drug and Chemical Company today is a widely diversified enterprise. Primary fields of manufacturing activity include proprietary drugs, hospital supplies, ethical drugs, plastics and chemicals. Chemical manufacture embraces not

only the production of fine chemicals for the pharmaceutical industry, but also the manufacture of basic plastic materials.

In recent years the Rexall Drug and Chemical Company has extended its scope of operations to include manufacturing, research and distribution facilities in Europe, Australia, South Africa and New Zealand. Additional petrochemical facilities are planned for 1960.

Film for Packaging and Heavy Bags

Plastic film, an important product for packaging, is produced by Rexall at Chippewa Falls, Wisconsin. Two additional film extruding plants, started last year, are near completion. One of these will be located on the East Coast and the other will be part of a new Rexall Plastics Center operation in Southern California. Film is the largest single user of polyolefin resins, and all indications are that this situation will continue to prevail. The West Coast Plastics Center will produce not only plastic film but also plastic pipe, valves and fittings, and will manufacture polystyrene.

Rexall Will Manufacture Plastic Forming Machinery

Overall, the Company plans additional emphasis on new product development and research in the current year. Engineering and machinery development is important in meeting the needs of this dynamic industry and Rexall has a number of new machines in the process of development to improve quality and lower the costs of its present operations. The Company is keeping abreast of plastic product processing both at home and abroad, and is continually evaluating new needs for plastic products for new areas of consumption.

Chemicals

Rexall's Chemical Division has two main areas of activity. They are the production of basic petrochemicals and of fine chemicals.

The two principal petrochemicals with which Rexall is presently concerned are polystyrene and polyethylene. Polystyrene is a hard plastic material which is manufactured from styrene. It is used extensively in the making of toys, household goods and for insulating materials.

Plans to double the manufacture of polystyrene at our plant in Massachusetts, which were announced in our annual report of last year, were delayed by the long steel strike. Construction is expected to be completed during the second quarter of 1960. Meanwhile the Company has

a new West Coast facility which will be further expanded during 1960 and will manufacture polystyrene at the new Rexall Plastics Center in Southern California.

New Plastic Materials Being Developed

The new center will also include a foamed polystyrene plant. This material, originally produced in large blocks and then sized to various thicknesses, will be used with various paneling materials to produce large building panels, insulation in refrigerated cars and trucks, walk-in freezers and for various other similar purposes.

Most of the plastic products which Rexall manufactures —film, containers, houseware—are made from polyethylene. In the near future Rexall expects to announce plans for substantial production of polyethylene.

Rexall's production of fine chemicals is concentrated at the present time in two facilities—one in England, the other in the United States.

Fine Chemicals Production Expanded

The English factory is a manufacturer of fine chemical specialties. Approximately 60 per cent of production is exported and sold by manufacturer's representatives in foreign countries.

The U.S. pharmaceutical chemicals manufacturing facility specializes in the production of salicylate derivatives, including the chemical used in aspirin.

Retail

At the close of 1959 there were 174 Company operated retail drug stores. These are located on the Eastern Seaboard, in the Southern States and on the West Coast. One hundred and twenty-nine of these stores are operated by Liggett Drug Company, Inc., forty-five by The Owl Drug Co.

Liggett Concentrates on Shopping Centers

During 1959 the total number of outlets for Liggett did not change. A substantial increase in both sales and profit developed from the first full year of operation of the Madison and Touchton stores. Both these chains are located in Florida.

Liggett continued to open new stores located in shopping centers in Florida, Georgia, Alabama and the New England states. In 1960 at least 12 additional units are definitely scheduled for opening to accommodate the rapid growth of population in these areas.

In the fall of 1960 Liggett is planning to open its first store in a shopping center in Puerto Rico.

Even though Liggett plans to open 12 new units, they will be offset by the continued program of eliminating marginal stores, thus leaving the total number of retail outlets about constant.

During 1959 a new headquarters was established in Connecticut, consolidating offices in New York and a warehouse in Boston. We are now realizing the advantages of these new facilities and the integrated operation.

The Owl Drug Co., with headquarters in Los Angeles, continued its elimination of marginal operations and the opening of new stores in shopping center locations.

At the close of 1959, Liggett and Owl had a total of 355 stores operating under an agency arrangement.

West's Most Famous Candy Manufacturer Grows

Blum's nationally famous candies are made in San Francisco and marketed in California as well as being distributed in metropolitan areas throughout the United States. Blum's also operates a number of restaurants. In 1959 Blum's largest restaurant was opened on Wilshire Blvd., in Beverly Hills. Another was opened in the exclusive I. Magnin & Co. store in Los Angeles. Two additional restaurants are planned for the San Francisco Bay area in 1960.

Administration

The rapid growth of Rexall made it essential to reorganize executive duties and responsibilities. Accordingly, the various divisions and subsidiaries were formed into groups, each of which has been placed under the supervision and direction of a group executive.

Management Organization Strengthened

Chester W. Anderson, formerly Vice President, Manufacturing, became Vice President of the Proprietary Drug and Retail Division.

Donald H. Brewer, formerly Senior Vice President of the Container Corp. of America, was elected Vice President of the Plastic Processing Division in mid-1959.

Ralph M. Knight, formerly Vice President of Plastics for U.S. Industrial Chemicals Company, Division of National Distillers and Chemical Corp. was named President of the Chemical Division in January of 1960.

William K. Archer, President of Injection Molding Company, was elected to the Rexall Drug and Chemical Company Board of Directors in October of 1959. Injection Molding Company is a wholly owned subsidiary of Rexall.

Employee Relations Good

Your Company's relations with its more than 12,000 employees, both organized and unorganized, were very satisfactory during 1959. There were no labor difficulties of consequence even though 1959 was a year in which many of the Company's most important agreements were negotiated.

The Board of Directors and management of the Company are most appreciative of the hard work and dedicated service which employees of the Company have contributed during 1959.

REXALL DRUG AND CHEMICAL COMPANY

Statement of Financial Position

ASSETS

	1959	1958
CURRENT ASSETS		
Cash	**$ 15,208,342**	$ 19,500,365
Short term securities at cost and redemption amount	**960,021**	502,500
	16,168,363	20,002,865
Accounts and notes receivable, less reserves of $975,988 in 1959 and $704,193 in 1958		
Customers	**21,420,145**	17,901,833
Others	**3,037,020**	2,152,709
Inventories, at cost or market whichever lower		
Raw materials and supplies (1959 $ 7,029,494; 1958 $ 5,949,400)		
Work in process (1959 2,506,529; 1958 2,681,188)		
Finished merchandise (1959 39,200,895; 1958 35,239,493)	**48,736,918**	43,870,081
Total Current Assets	**89,362,446**	83,927,488
INVESTMENTS, ADVANCES AND NONCURRENT RECEIVABLES		
Investments in and advances to subsidiaries not consolidated		
United States subsidiaries (Rexall equity in net assets $2,502,000 in 1959 and $1,207,000 in 1958)	**2,484,048**	1,159,530
Foreign subsidiaries (consolidated in 1959)		595,340
Due from sale of retail stores and other properties	**1,644,482**	840,347
Due from officers and employees under stock purchase plan	**351,111**	634,385
Other receivables, deposits and investments, less reserve	**1,328,621**	1,279,712
	5,808,262	4,509,314
PROPERTY ACCOUNTS, AT COST		
Land	**2,067,248**	1,765,804
Buildings and building fixtures	**16,135,910**	13,120,274
Machinery and equipment	**25,464,008**	19,811,918
Store fixtures, leaseholds and improvements	**12,905,652**	13,024,345
	56,572,818	47,722,341
Less accumulated depreciation	**23,491,848**	21,707,280
	33,080,970	26,015,061
INSURANCE, TAXES, RENT AND OTHER DEFERRED CHARGES	**1,376,473**	794,497
INTANGIBLES		
Excess of investments in businesses purchased over net assets acquired	**5,693,481**	3,919,657
Patents, less amortization	**543,573**	568,780
	6,237,054	4,488,437
	$135,865,205	$119,734,797

See accompanying notes to financial statements.

AND ITS CONSOLIDATED SUBSIDIARIES

December 31, 1959 and 1958

LIABILITIES

CURRENT LIABILITIES	1959	1958
Notes payable to banks	$ 2,250,000	$
Accounts payable	13,133,628	13,464,685
Accrued wages, salaries and taxes thereon	5,103,073	3,930,665
Other accrued expenses	5,977,412	5,219,254
Current instalments of long term indebtedness	1,329,648	1,144,201
Estimated United States and foreign taxes on income for current and prior years	6,092,028	5,413,136
Total Current Liabilities	33,885,789	29,171,941
LONG TERM INDEBTEDNESS —less current instalments shown above		
Unsecured notes, 3⅜% to 5¾%, due in instalments 1960 to 1980	27,977,000	24,103,000
Unsecured notes, 4½% due in instalments 1960 to 1963		5,000,000
Real estate and equipment obligations	1,953,895	2,057,939
	29,930,895	31,160,939
STOCKHOLDERS' EQUITY		
Capital stock of Rexall Drug and Chemical Company Authorized, 5,000,000 shares, par value $2.50 each Issued, 3,865,371 shares in 1959 and 3,501,120 in 1958	9,663,428	8,752,800
Capital in excess of par value per accompanying statement	17,008,952	12,249,504
Retained earnings per accompanying statement (Of the 1959 amount $5,261,708 is reserved for a 3% stock dividend (115,010 shares) payable March 11, 1960)	45,690,816	38,847,444
	72,363,196	59,849,748
Less cost of reacquired capital stock, 32,732 shares in 1959 and 46,671 shares in 1958	314,675	447,831
Total Stockholders' Equity	72,048,521	59,401,917
	$135,865,205	$119,734,797

Statement of Earnings and Retained Earnings

	1959	1958
Sales, less returns, allowances and discounts	**$227,015,721**	$182,371,453
Deduct:		
Cost of goods sold	**137,591,728**	108,530,684
Selling, distribution, promotional and administrative expenses	**67,160,448**	58,439,954
Depreciation	**3,519,963**	2,436,890
Interest on indebtedness	**1,590,388**	1,358,765
	209,862,527	170,766,293
Earnings before taxes on income	**17,153,194**	11,605,160
Provision for United States and foreign taxes on income	**8,400,000**	5,300,000
Net earnings for the year	**8,753,194**	6,305,160
Retained earnings at beginning of year:		
Rexall Drug and Chemical Company and its United States and Canadian subsidiaries	**38,847,444**	34,182,699
Foreign subsidiaries consolidated in 1959	**1,472,221**	
Injection Molding Company acquired in 1959	**843,160**	
	49,916,019	40,487,859
Less:		
Cash dividends—50¢ per share	**1,840,954**	1,640,415
Stock dividend, 3%, paid in March 1959 (103,663 shares at $23 per share)	**2,384,249**	
	4,225,203	1,640,415
Retained earnings at close of year	**$ 45,690,816**	$ 38,847,444

See accompanying notes to financial statements.

Statement of Capital in Excess of Par Value

	1959	1958
At beginning of year	**$ 12,249,504**	$ 10,601,647
Excess of fair value over par value of 103,663 shares of capital stock issued as a 3% stock dividend	**2,125,092**	
Excess of fair value over par value or cost of 80,980 shares in 1959 and 233,000 in 1958 of capital stock (partly reacquired stock) exchanged for capital stock or net assets of companies acquired	**2,576,981**	1,609,451
Other credits	**57,375**	38,406
At close of year	**$ 17,008,952**	$ 12,249,504

See accompanying notes to financial statements.

Notes to Financial Statements

BASIS OF CONSOLIDATION – In 1959 all wholly owned United States, Canadian and other foreign subsidiaries and Blum's, a 94 percent owned subsidiary, are consolidated. The minority interests in income and ownership of Blum's are relatively insignificant and are not shown separately. Foreign subsidiaries other than Canadian were not consolidated in 1958. The consolidation of the other foreign subsidiaries in 1959 increased net assets (chiefly current) and retained earnings at the beginning of the year by $1,472,221; the consolidation of undistributed 1959 income of these companies had no material effect on net earnings for the year. The Canadian accounts are included at par; the other foreign accounts (principally English) are translated into U.S. dollar equivalents at quoted yearend exchange rates.

During 1959 the company issued 187,500 shares of capital stock for all of the outstanding capital stock of Injection Molding Company. This transaction has been reflected in the financial statements as a pooling of interests, and accordingly the accompanying statement of earnings and retained earnings includes the results of operations of Injection Molding Company and its subsidiaries for the entire year of 1959. Because of the several different fiscal years formerly used by the Injection subsidiaries, the 1958 consolidated accounts have not been restated to reflect the pooling retroactively; such a restatement would not have a material effect on 1958 net earnings.

Several other smaller businesses were acquired in 1959, the sales and net earnings or losses of which are included in the consolidated accounts from the respective dates of acquisition. The excess of Rexall's investment – the fair value of the 80,980 shares of capital stock (partly reacquired stock) issued in exchange for the capital stock or net assets of these companies – over the net assets acquired amounted to $1,773,824. In accordance with the practice followed in 1958 with respect to similar items, which are set forth separately in the statement of financial position, this amount is not being amortized.

REFUND CLAIM – No amounts have been included in the financial statements in respect of claims seeking recovery of Federal excess profits taxes. The claims filed in 1953 are based on a contention that the excess profits credits should be increased for the years 1940 to 1945, inclusive.

STOCK OPTIONS – Pursuant to a stock option plan adopted in 1957 and amended in 1959, both with stockholder approval, and under options granted in 1956, a total of 330,000 shares of capital stock of the Company were reserved for purchase by officers and employees under options granted or to be granted. The option price is the market price of the stock on the date options are granted. The options are not assignable and are generally exercisable cumulatively in ratable amounts over a period of ten years. The number of shares in all outstanding options are increased ratably with no change in the aggregate dollar amounts upon payment of stock dividends. Options for 1,600 shares were exercised prior to 1959. A summary of changes in stock options during 1959 is set forth below:

	Options Granted		*Options Exercisable*	
	Shares	*Amount*	*Shares*	*Amount*
Balance at beginning of year	143,400	$1,699,450	9,200	$ 86,256
Adjustment for stock dividend paid	4,302	–	276	–
Options which were granted or became exercisable during year	90,725	3,688,738	14,420	165,975
Options exercised	(6,077)	(52,538)	(6,077)	(52,538)
Options cancelled	(21,635)	(710,312)	–	–
Balance at end of year	210,715	$4,625,338	17,819	$199,693

At December 31, 1959 there were 116,000 shares for which options could be granted. In January 1960 options for 97,000 shares for an aggregate amount of $4,134,625 were granted and an option for 3,500 shares was cancelled.

EARNINGS AVAILABLE FOR DIVIDENDS – Under agreements covering long term indebtedness, approximately $9,300,000 of the $45,690,816 of retained earnings at December 31, 1959 is not restricted as to payment of cash dividends. The agreements impose no restriction on the payment of stock dividends.

LEASE LIABILITIES – At December 31, 1959 the Company and its consolidated subsidiaries were committed under some 256 leases of real property expiring more than three years after that date with minimum annual rentals of approximately $4,370,000. One percent of this amount relates to leases expiring more than 25 years after December 31, 1959.

In addition, subsidiary companies have leased (most with options to purchase) store fixtures for periods of six and a half years or more, in most cases at aggregate basic rentals which over the lease periods approximate the cost of the fixtures plus carrying charges. The present total annual rental payable is approximately $790,000.

Independent Auditors Report

PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET
LOS ANGELES 14

To the Board of Directors
of Rexall Drug and Chemical Company

February 29, 1960

In our opinion, the accompanying statements present fairly the consolidated financial position of Rexall Drug and Chemical Company and its consolidated subsidiaries at December 31, 1959 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, which we approve, in the basis of consolidation as set forth in the first note to the financial statements. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Statistical Summary

in thousands of dollars

FINANCIAL OPERATIONS	1959	1958	1957	1956	1955	1954
Net sales	**$ 227,016**	$ 182,371	$ 167,567	$ 155,633	$ 153,465	$ 176,138
Earnings before United States and foreign income taxes and 1954 special items	**17,153**	11,605	9,214	9,074	8,916	6,567
United States and foreign income taxes	**8,400**	5,300	4,600	4,600	4,850	3,300
Net earnings	**8,753**	6,305	4,614	4,474	4,066	3,267
Earnings per share of common stock	**$ 2.30***	$ 1.91*	$ 1.45	$ 1.35	$ 1.19	$ .93

** Based upon the average of shares outstanding during the year.*

FINANCIAL POSITION	1959	1958	1957	1956	1955	1954
Cash and short term securities	**$ 16,168**	$ 20,003	$ 14,431	$ 14,533	$ 17,830	$ 12,463
Accounts receivable	**24,457**	20,054	17,726	16,722	15,005	14,346
Inventories	**48,737**	43,870	40,119	35,436	34,563	38,246
Current assets	**89,362**	83,927	72,276	66,691	67,398	65,055
Less—Current liabilities	**33,885**	29,172	22,178	20,840	19,718	18,803
Working capital	**55,477**	54,755	50,098	45,851	47,680	46,252
Property, machinery and equipment (net)	**33,081**	26,015	20,162	18,207	17,639	17,869
Investments, advances, prepaid expenses, etc.	**7,185**	5,304	4,645	6,070	4,653	3,943
Intangibles	**6,237**	4,489				
Less—Real estate and equipment obligations	**1,954**	2,058	978	811	883	927
Other long term indebtedness	**27,977**	29,103	23,376	20,622	22,020	21,775
Stockholders' equity	**$ 72,049**	$ 59,402	$ 50,551	$ 48,695	$ 47,069	$ 45,362
Stockholders' equity—per share	**$ 18.80**	$ 17.20	$ 15.89	$ 14.71	$ 13.72	$ 12.98
Number of shares of stock outstanding	**3,832,639**	3,454,449	3,181,673	3,310,756	3,429,732	3,501,120
Number of stockholders	**19,151**	16,911	15,852	15,865	15,807	14,688

Amounts for 1959 include the consolidation of additional foreign subsidiaries and Injection Molding Company.

BOARD OF DIRECTORS

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RALPH M. KNIGHT ..... Vice President, Chemical Division
WALTER T. LILLIE ..... Vice President and Treasurer
BERT K. HENRY ..... Controller
BENJAMIN H. DORMAN ..... Secretary

TRANSFER AGENTS

Morgan Guaranty Trust Company of New York, New York
Second Bank-State Street Trust Company, Boston
Bank of America National Trust & Savings Association, Los Angeles

REGISTRARS

The Chase Manhattan Bank, New York
The National Shawmut Bank of Boston, Boston
California Bank, Los Angeles

INDEPENDENT AUDITORS

Price Waterhouse & Co.

HEADQUARTERS

Rexall Square, 8480 Beverly Blvd., Los Angeles 54, California